

DEBT MATURITY STRUCTURE OF LOW AND HIGH TOBIN'S Q FIRMS

By

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ABSTRAK

Kajian ini mengkaji kesan perkembangan yang mempengaruhi struktur kematangan hutang daripada syarikat-syarikat Malaysia. Hasil kajian menunjukkan bahawa tiada perbezaan antara pembiayaan hutang jangka pendek dan jangka panjang di firma yang mempunyai perkembangan dengan Tobin's Q yang tinggi. Walau bagaimanapun, hubungan antara perkembangan dan kematangan hutang adalah negatif bagi firma-firma yang mempunyai Tobin's Q yang rendah. Oleh itu, ini menunjukkan bahawa firma yang berkembang dengan Tobin's Q tinggi tidak menggunakan struktur kematangan hutang untuk mengurangkan kos agensi hutang (agency cost of debt) yang disebabkan oleh masalah terkurang pelaburan (underinvestment problem), manakala firma-firma yang berkembang dengan Tobin's Q rendah mengekalkan tahap yang lebih tinggi untuk hutang jangka pendek, tetapi tahap yang lebih rendah untuk hutang jangka panjang bagi mengurangkan kos agensi ekuiti (agency cost of equity) disebabkan oleh masalah pelaburan yang berlebihan (overinvestment problem).

Katakunci: Hutang Matang ; Perkembangan ; Tobin's Q; Kos agensi

ABSTRACT

This study examines the effects of growth in influencing debt maturity structure of Malaysian companies. The result shows that growth firms with high Tobin's Q are indifferent between short-term and long-term debt financing. However, the relationship between growth and debt maturity is negatively related for firms with low Tobin's Q. Therefore, this implies that growth firms with high Tobin's Q do not make use of debt maturity structure to mitigate the agency cost of debt caused by underinvestment problem, while growth firms with low Tobin's Q maintain higher levels of short-term debt, but lower levels of long-term debt to mitigate agency cost of equity caused by overinvestment problem.

Keywords: Debt Maturity; Growth; Tobin's Q; Agency cost

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LIST OF ABBREVIATIONS

Bottom30	: Bottom 30% of the Sample Companies
EBIT	: Earnings before Interest and Taxes
et al.	: and Others
GICS	: Global Industry Classification Standard
Growth	: Growth Opportunities
H1	: First Hypothesis
H2	: Second Hypothesis
i.e.	: that is
NPV	: Net Present Value
R&D	: Research and Development
Risk	: Business Risk
Size	: Firm Size
Top30	: Top 30% of the Sample Companies
US	: United States of America

1. INTRODUCTION

This chapter discusses the intention and objectives of this study. They are divided into few sections as below:

- 1.1 Background of Study
- 1.2 Problem Statement
- 1.3 Significance of Study
- 1.4 Scope of Study
- 1.5 Research Objectives

1.1. Background of Study

Capital structure is the source of fund derived from a mixture of equity and debt used by firms to finance its operations and growth. The optimal capital structure contains the right debt and equity mix where company maximizes the firm value and minimizes its cost of capital.

Debt is a borrowing of fund from external source with the promise of returning the principal plus a pre-agreed interest rate. The benefits of debt financing include (1) shareholders is able to maintain their ownership and control of the company, (2) gain on business income tax deduction as business loan and interest payments on business loan is categorized as business expenses, and (3) a lower rate of payment on interest rate as compared to government taxes. On the other hand, one of the disadvantages

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